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CITY OF SAN DIEGO
MEMORANDUM

DATE: April 22, 2004

TO: Councilmember Donna Frye and Councilmember Ralph Inzunza

FROM: Bruce Herring, Deputy City Manager

SUBJECT: CDBG Fund Repayment from CCDC

This memo is in response to your memos dated March 24, 2004 regarding Repayment of CDBG Funds to the City by CCDC and April 13, 2004 regarding Commitment of FY 2005 District CDBG Funds. The following information has been provided by the Centre City Development Corporation (CCDC) regarding the Community Development Block Grant (CDBG) funds.

Between 1977 and 1984, the downtown area received a total of approximately \$16 million of CDBG monies as part of the City-wide allocations to undertake qualified public improvements as part of CCDC's new responsibilities for conducting this work previously done by the City. These funds were spent along with an additional \$70 million of Tax Increment on public improvements that would have otherwise been done by the City.

Because California redevelopment law requires debt to be on the agency's books to collect Tax Increment, unlike other CDBG allocations made throughout the City, these CDBG funds were "recorded" as debt (non-interest bearing) to be repaid at the end of CCDC's "redevelopment life" and fully subordinate to all other outstanding debt such as bonds, contracts, obligations, etc. Agency bonds are structured to be senior to these accounting entries. Any change to this would result in a diminished capacity and a barrier to our ability to meet current and planned obligations and priorities.

Subsequent to these CDBG allocations (circa 1982), it was deemed beneficial to the City in the long term to make bookkeeping entries for interest accruals to thus allow the City to continue to collect Tax Increment for up to an additional 10 years after all other debt and obligations have been retired and the Redevelopment Plan expires. Consistent with all other CDBG allocations, these funds have been spent, and were never intended to be repaid, especially given that there is no available "cash" in the bank or other means to make these payments until all other debts are paid off. While the accounting entry and resulting "interest" would total approximately \$100 million, these are being treated differently than other CDBG allocations City-wide for unique reasons and were never contemplated to be a current liability due on demand. In fact, with the commitments made to the Main Library, the City's share of North Embarcadero, Ballpark and other projects, an offset to this account for these CDBG qualified projects would make it a rather

large "negative balance" therein should this accounting method be employed. Treating downtown CDBGs differently than other areas seems contradictory to their intended purpose and the City policy established for these funds.

Based upon this information, it is not recommended that any CDBG funds be transferred back to the City from CCDC at this time.

A handwritten signature in black ink, appearing to read "Bruce Herring", with a stylized flourish at the end.

Bruce Herring
Deputy City Manager

BH/LKC

cc: Mayor Dick Murphy
City Council
Lamont Ewell